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Computing Devices of Canada Limited

ANNUAL REPORT FOR 1967

FINANCIAL HIGHLIGHTS OF THE 19TH ANNUAL REPORT

	1967	1966	1965	1964	1963
Sales, royalties, contract and other revenue	$21,427,045	$18,243,551	$20,176,491	$15,208,265	$16,892,111
Net income (loss)	$ 197,089	$ (2,271,888)	$ 989,075	$ 1,116,348	$ 1,636,915
Net income (loss) per share	$ .25	$ (2.93)	$ 1.28	$ 1.44	$ 2.18
Common shares outstanding at year end	775,000	775,000	775,000	775,000	750,000
Shareholders' equity at year end	$ 4,761,195	$ 4,564,106	$ 7,068,494	$ 6,464,419	$ 4,848,071
Shareholders' equity per share	$ 6.14	$ 5.89	$ 9.12	$ 8.34	$ 6.46
Working capital at year end	$ 1,836,342	$ 1,343,930	$ 5,046,605	$ 3,898,974	$ 2,535,985
Net research expenditures	$ 369,094	$ 1,975,931	$ 1,690,231	$ 915,081	$ 1,095,255
Plant and equipment expenditures (excluding research)	$ 311,486	$ 499,661	$ 1,237,707	$ 563,689	$ 1,172,630
Number of employees at year end	1,364	1,510	1,437	1,293	1,119
Wages and salaries to employees	$10,136,600	$ 9,715,200	$ 8,520,600	$ 5,423,800	$ 6,192,700
Unfilled orders at year end	$16,100,000	$14,000,000	$18,200,000	$12,300,000	$14,900,000

Figures for the years 1963 to 1966 have been restated to conform to 1967 classifications. Fiscal year 1964 marked a change in the fiscal year end, consequently represents only a 9-month period.

SALES AND CONTRACT REVENUE BY MAJOR CLASSIFICATIONS

	1967		1966	
Space	$ 745,300	4%	$ 832,500	5%
Missile	$ 1,064,100	5%	$ 451,900	3%
Aviation	$ 9,337,800	44%	$ 7,839,200	44%
Oceanics	$ 5,685,100	27%	$ 6,070,000	34%
Automation – Scientific	$ 934,900	4%	$ 643,300	4%
Other	$ 3,264,600	16%	$ 1,805,200	10%
TOTAL *	$21,031,800	100%	$17,642,100	100%

* *Excludes royalties and other revenue*

REPORT OF THE DIRECTORS TO THE SHAREHOLDERS

The directors present to the shareholders their 19th Annual Report and the audited consolidated financial statements of the Company and its wholly-owned subsidiary in Great Britain for the fiscal year ended September 30, 1967.

Sales, Royalties, Contract and other Revenue

The Company's consolidated sales, royalties, contract and other revenue for the 1967 fiscal year was a new high of $21,427,045. The 1967 consolidated sales represent an increase of $3,183,494 or 17.4% over 1966 fiscal year sales of $18,243,551.

Sales and contract revenue are listed by major classifications on the inside cover page.

Net Income

Consolidated net income for the 1967 fiscal year was $197,089, equal to 25¢ per share, as compared with a net operating loss of $2,271,888, equal to $2.93 per share, for the 1966 fiscal year.

Last year we reported that whilst every effort was being made to increase sales and improve efficiency, the operating results for 1967 were not expected to be profitable as a great deal of activity in the operations of the Company would be taken up in the completion of contracts on which a loss was forecast.

As a result of such efforts our 1967 sales increased to a record level. Although the slight profit of $197,089 is an improvement over the anticipated loss, it is recognized that the present profit level is low.

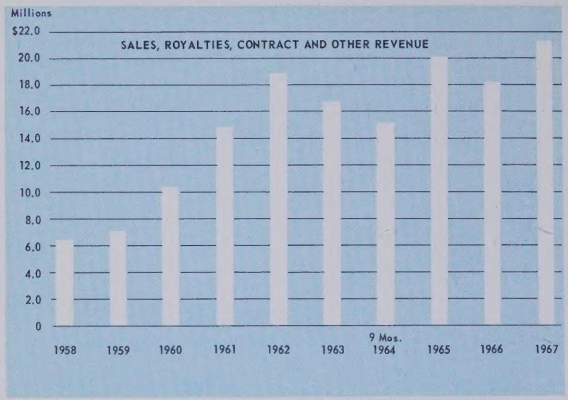
The level of profit for 1967 fiscal year was adversely affected by the need to provide a further sum, amounting to $441,644, relating to contracts covered by the provision for estimated anticipated losses established for the previous fiscal year. Over ninety per cent of the net additional provision of $441,644 is attributable to technical problems encountered on a firm-price research and development contract for an advanced tactical display system.

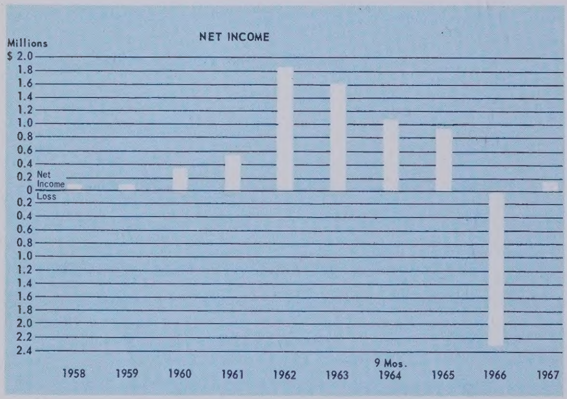
As the future character and growth of the Company will be determined in a large part by the nature and results of our research and development activities, it has been the practice over the years to participate with the Canadian Government in non-profit and cost sharing research and development programs. Sales of our developmental products and our services under such programs amounted to $3,065,800 in 1967, compared with $1,581,100 in the previous fiscal year. As these sales do not provide a profit they have an adverse short term effect upon the Company's profit return in relation to sales, but, are essential for future growth and profit.

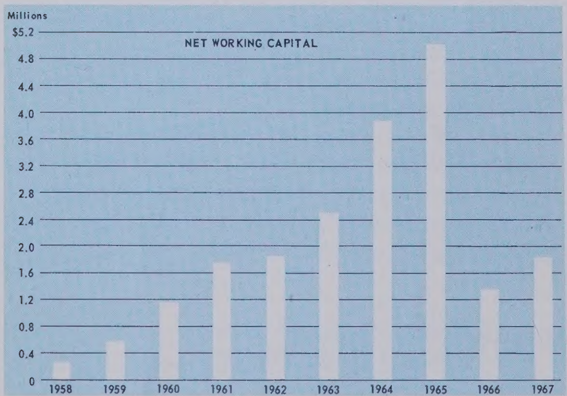
The improvement in 1967 net income is primarily attributed to increased sales, reduced engineering expense and improved efficiencies, with these favourable influences being partially offset by higher labour costs and material price increases.

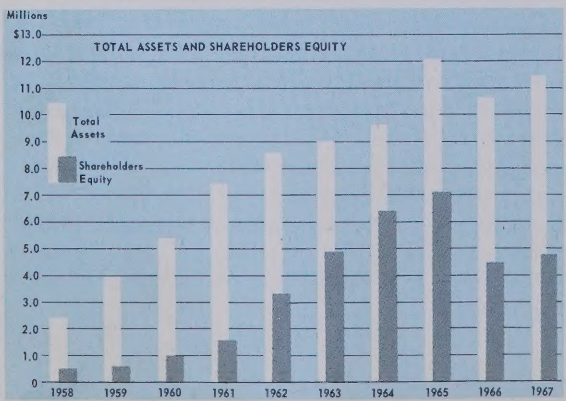
Research and Development

As in the past, the Company has continued to devote a large proportion of its energies to product development. The Company's expenditures for research and development in 1967 amounted to $398,413, a substantial portion of which was spent on the further development of the AN/UYK-501 digital computer and its peripherals. Three service test systems for a major development program incorporating the computer have been released for production in the experimental shops and studies are now underway to determine the feasibility of developing a micro-miniaturized version of the computer for future production. The prospects of obtaining a limited production run continue to be favourable.









Commercial Operations

In the year ended September 30, 1967, total sales and revenue of the Company's Commercial Group were $6,056,000, representing an increase of $1,826,536 over the 1966 fiscal year's total of $4,229,464. Profit before tax from this operation amounted to $280,275 in 1967, compared with $116,619 for 1966. Several large orders of avionic and automation-scientific equipments, delivered in the 1967 fiscal year, together with continuing increased activities in the marine and survey operations, were significant factors in this improvement.

Customer acceptance of our marine and survey services has warranted an expansion of our base for participation in marine and industrial electronics activities on Canada's west coast. On October 2, 1967, certain assets of a small marine and logging electronics sales and service business in Vancouver, B.C. were acquired. This acquisition is now operating as a division of your Company under the name of Sounder Sales and Service.

International Operations

Sales and revenue from international operations for the fiscal year under review represented 30% of the Company's total income compared with 27% a year ago. The growth potential for the Company's aerospace products is dependent in a large part on our ability to sell in the export market.

Marketing in Great Britain is handled through your subsidiary, Computing Devices Company Limited who earned a profit for the second successive year since its formation in 1962. Its profit for the 1967 fiscal year was $81,924 on sales of $1,381,092, compared with 1966 earnings of $43,746 on sales of $751,014.

North American marketing is handled by the Company. However, to provide a more direct access to the United States market, the Company recently allied itself with Bendix's Aerospace Products Group. The Company was able to form this association through its major shareholder, Bendix-Eclipse of Canada, Limited, a wholly-owned subsidiary of The Bendix Corporation.

Working Capital

The net working capital increased by $492,412 during the year to a total of $1,836,342 at September 30, 1967. The details of this net increase are set forth in the consolidated statement of source and application of funds.

Capital Stock and Shareholders' Equity

The total assets of the Company increased during the year by $869,311 to $11,520,014 as at September 30, 1967; and the shareholders' equity as at that date amounted to $4,761,195 or $6.14 per share, representing an increase of 25¢ per share during the year.

Future Operations

The devaluation of the pound sterling on November 18, 1967 has not been taken into account in the accompanying financial statements. However, it has no significant effect as the loss attributable to devaluation is estimated at $11,000. Negotiations are under way to bring the sterling conversion ratio of present contracts into line with the current exchange position. Indications are that these negotiations will be favourably concluded and the Company will not suffer a contract loss due to devaluation. Another profitable year is forecast by the subsidiary company in Great Britain at about the same level of results obtained in the fiscal year ended September 30, 1967.

In addition to achieving a high level of sales for the year, the Company increased its backlog of orders. At September 30, 1967, the backlog of unfilled orders amounted to $16,100,000, an increase of $2,100,000 over the value recorded at previous year end. Late in the 1967 fiscal year, the Company was successful in obtaining significant follow-on production orders for the latest generation of its tactical display and navigation equipment. These orders, in addition to demonstrating customer acceptance of the Company's range of advanced products, will provide a good measure of our activities in the future.

The recent curtailment in planned Government expenditures has created a greater than normal degree of uncertainty within the Canadian aerospace industry. However, our continuing efforts and advances in the fields of navigation, display and sensoring are aimed towards increasing our sales so that, with sustained economies in our operations, there may continue to be cautious optimism with respect to the Company's ability to improve its profit position in future years.

Directors and Officers

At its June meeting the Board of Directors regretfully accepted the resignation of Mr. C.F. Hembery who has made significant contributions to the Company and served as a director since 1952 and as President since 1955. Mr. Hembery has agreed to remain with the Company in an advisory capacity for at least one year.

Mr. J.F. Taylor, a director of the Company since 1959 and Vice-President and General Manager since September 1, 1966, was elected President and General Manager.

Mr. James E. Bevins, Vice-President and Group Executive of the Aerospace Products Group of The Bendix Corporation was appointed a director of the Company to replace Mr. L.E. Smart who retired from the Board in February, 1967.

The Board also established and filled two new offices in June. Mr. A.P. Fontaine, Chairman of the Board and Chief Executive Officer of The Bendix Corporation was elected Chairman of the Board of your Company and Mr. Bevins was elected Vice-Chairman of the Board.

Since the close of the fiscal year, Dr. G.P.T. Wilenius has been appointed Director of Marketing to replace Mr. J.E. Detlor, who resigned.

Acknowledgements

The Board of Directors wishes to express its sincere appreciation of the efforts of the employees during the year.

To the Shareholders, we wish to record our appreciation for your interest and support.

FOR THE BOARD OF DIRECTORS

J.F. Taylor

J.F. Taylor,
President and General Manager

CONSOLIDATED BALANCE SHEET AS AT SEPTEMBER 30, 1967

ASSETS

	1967	1966
CURRENT ASSETS:		
Cash	$ 6,445	$ 3,485
Receivables (including unbilled charges):		
Government of Canada	2,565,412	2,428,477
Affiliated companies	389,943	353,880
Income taxes recoverable *(Note 2)*	54,068	100,649
Other	1,421,228	930,648
Total receivables	4,430,651	3,813,654
Inventories *(Notes 3 and 4)*	4,039,320	3,500,264
Prepaid expenses	66,499	59,678
Total current assets	8,542,915	7,377,081
PROPERTY, PLANT AND EQUIPMENT — at cost	6,951,366	6,675,766
Less accumulated depreciation and amortization	4,090,718	3,563,213
Net property, plant and equipment	2,860,648	3,112,553
DEFERRED DEVELOPMENT COSTS — at cost, less amortization	116,451	161,069
TOTAL	$11,520,014	$10,650,703

Approved by the Board:

J.F. TAYLOR Director

F.S. MARTIN Director

CONSOLIDATED BALANCE SHEET AS AT SEPTEMBER 30, 1967

LIABILITIES AND SHAREHOLDERS' EQUITY

	1967	1966
CURRENT LIABILITIES:		
Bank indebtedness, secured by a general assignment of receivables	$ 2,887,321	$ 2,623,282
Accounts payable and accrued charges	1,101,404	1,193,867
Due to affiliated companies	332,156	365,425
Demand note payable to an affiliated company	1,300,000	—
Sales and other taxes payable	202,754	204,113
Customers' advance payments (affiliated company 1967 — $453,172; 1966 — $820,933)	857,938	979,041
Allowance for unrecoverable future costs on contracts *(Note 4)*	25,000	667,423
Total current liabilities	6,706,573	6,033,151
LONG-TERM DEBT:		
6½% mortgage payable, due in blended monthly instalments of principal and interest through November 1, 1987, less amount included in accounts payable	52,246	53,446
SHAREHOLDERS' EQUITY:		
Capital stock:		
Authorized — 1,500,000 common shares of no par value		
Issued and fully paid — 775,000 common shares	500,303	500,303
Retained earnings	4,260,892	4,063,803
Total shareholders' equity	4,761,195	4,564,106
TOTAL	$11,520,014	$10,650,703

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED SEPTEMBER 30, 1967

	1967	1966
INCOME:		
Sales, contract and other revenue	$21,146,663	$17,899,313
Royalties	280,382	344,238
Total income	21,427,045	18,243,551
COSTS AND EXPENSES:		
Cost of sales	17,291,417	16,468,172
Selling, service, patent, administrative and general expenses	2,962,514	2,723,667
Research and development	398,413	1,089,636
Provision for depreciation and amortization	551,801	527,052
Total costs and expenses	21,204,145	20,808,527
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	222,900	(2,564,976)
PROVISION FOR (RECOVERY OF) INCOME TAXES *(Note 2)*	25,811	(60,358)
DEFERRED TAXES WRITTEN BACK	–	(232,730)
NET INCOME (LOSS) FOR THE YEAR	$ 197,089	$ (2,271,888)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS FOR THE YEAR ENDED SEPTEMBER 30, 1967

	1967	1966
BALANCE AT BEGINNING OF THE YEAR	$ 4,063,803	$ 6,546,191
ADD:		
Net income for the year	197,089	–
Transfer from capital surplus	–	22,000
	4,260,892	6,568,191
DEDUCT:		
Net loss for the year	–	2,271,888
Dividends declared	–	232,500
	–	2,504,388
BALANCE AT END OF THE YEAR	$ 4,260,892	$ 4,063,803

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 1967

	1967	1966
FUNDS PROVIDED:		
Net income (loss) for the year	$ 197,089	$ (2,271,888)
Depreciation and amortization	551,801	527,691
Development costs absorbed	126,995	59,476
Deferred taxes written back	–	(232,730)
Total funds provided from operations	875,885	(1,917,451)
Sale of equipment	41,252	113,905
Research grant	9,887	–
Total funds provided	927,024	(1,803,546)
FUNDS APPLIED:		
Additions to plant and equipment	351,035	1,620,098
Development costs deferred	82,377	45,362
Dividends paid	–	232,500
Current liability on mortgages	1,200	1,169
Total funds applied	434,612	1,899,129
INCREASE (DECREASE) IN WORKING CAPITAL FOR THE YEAR	492,412	(3,702,675)
WORKING CAPITAL AT BEGINNING OF THE YEAR	1,343,930	5,046,605
WORKING CAPITAL AT END OF THE YEAR	$ 1,836,342	$ 1,343,930

The accompanying notes are an integral part of the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Principles of Consolidation

The consolidated financial statements include the accounts of the Company and of its wholly-owned subsidiary, Computing Devices Company Limited. Assets, liabilities and operating results of this British subsidiary have been converted to Canadian dollars at the rate of $3 to the pound sterling.

Amounts receivable and payable in United States dollars have been converted to Canadian dollars at rates approximating those at September 30, 1967.

2. Income Taxes

(a) Scientific Research Expenditures

The income tax authorities have reassessed the 1964 and 1965 taxation years, disallowing certain claims made by the Company for scientific research expenditures. The Company is disputing the reassessments and a decision in the Company's favour would result in the recovery of $36,900 paid on account of 1964 (included in income taxes recoverable in the consolidated balance sheet) and the reinstatement of $125,000 losses available for carry-forward in respect of 1965.

(b) Losses Available for Carry-forward

Including the $125,000 mentioned above, losses available for carry-forward are approximately $2,700,000 with respect to prior years, available until 1971 and approximately $60,000 with respect to the current year, available until 1972.

No income taxes are payable on the net income for the year, other than foreign withholding taxes.

(c) Capital Cost Allowances

In computing losses available for carry-forward, the Company did not claim capital cost allowances in 1966 and does not intend to claim capital cost allowances in 1967. As a result, the base for capital cost allowances exceeds the net book value of depreciable assets by approximately $650,000 at September 30, 1967.

3. Inventories

Inventories have been valued as follows:

	1967	1966
Materials — at the lower of cost or replacement cost	$ 312,081	$ 258,095
Work in process — at the lower of cost or net realizable value	3,050,701	2,884,892
Finished goods — at the lower of cost or net realizable value	676,538	357,277
	$4,039,320	$3,500,264

4. Allowance for Unrecoverable Future Costs on Contracts

Consistent with prior years, the Company records profits or losses on fixed-price contracts and contracts with a ceiling price in the following manner:

(a) Profits are estimated and allocated to accounting periods on the basis of billings made.

(b) Losses incurred are written off; estimated losses on realization of work in process are provided for in full.

In the current year, losses inherent in work in process amounting to $435,000 have been deducted from work in process in the consolidated balance sheet to show net realizable value. Estimated future losses (the excess of estimated costs to complete over the amount remaining to be billed) amounting to $25,000 have been shown as a current liability. The aggregate provision of $460,000 is included in cost of sales.

To conform to this presentation, the 1966 provision for contract losses of $1,828,900, shown in last year's consolidated financial statements as a separate item, has been restated as follows:

$1,161,477	deducted from work in process to show net realizable value
667,423	remains as a current liability
$1,828,900	included in cost of sales.

5. Long-term Leases

The Company leases certain of its premises under an agreement which has an unexpired term of nine years with an annual rental of approximately $225,000.

6. Remuneration of Directors and Senior Officers

The remuneration of directors and senior officers, as defined by the Ontario Securities Act, for the year amounted to $161,736 (1966 — $190,100) of which $49,319 (1966 — $62,467) represented remuneration of directors.

7. Comparative Figures

The 1966 figures are presented for purposes of comparison only and have been restated to conform to the 1967 classifications. They are not covered by the accompanying report of Deloitte, Plender, Haskins & Sells.

AUDITORS' REPORT

To the Shareholders of
Computing Devices of Canada Limited:

We have examined the consolidated balance sheet of Computing Devices of Canada Limited and its subsidiary company as at September 30, 1967 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at September 30, 1967 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
October 20, 1967.

DELOITTE, PLENDER, HASKINS & SELLS
Chartered Accountants

COMPUTING DEVICES OF CANADA LIMITED

BOARD OF DIRECTORS

A.P. Fontaine, Detroit, Michigan, Chairman of the Board and Chief Executive Officer of The Bendix Corporation.

J.E. Bevins, Teterboro, N.J., Vice-President and Group Executive, The Bendix Corporation.

F.S. Martin, Ottawa, Ontario, Resident Director, Greenshields Incorporated.

J.A. Norton, Ottawa, Ontario.

J.F. Taylor, Ottawa, Ontario, President, Computing Devices of Canada Limited.

J.B. Treacy, New York, N.Y., Vice-President, International Operations, The Bendix Corporation.

OFFICERS

A.P. Fontaine, Chairman of the Board
J.E. Bevins, Vice-Chairman of the Board
J.F. Taylor, President and General Manager
E.B. Daubney, Vice-President, Finance and Treasurer
J.E. Detlor, Vice-President, Marketing
R.R. Hoge, Vice-President, Research and Engineering
C.R. Grove, Secretary

OFFICES

Head Office and Plant – Bells Corners, Ontario.

Sales Offices – Ottawa, Toronto, Ontario; Montreal, Quebec; Halifax-Dartmouth, Nova Scotia; Vancouver, British Columbia.

Service Depots – Montreal, Quebec; Halifax-Dartmouth, Lunenburg, Sydney, Yarmouth and Shelburne, Nova Scotia; St. Johns, Burin, Grand Bank and Port-aux-Basques, Newfoundland; Vancouver, British Columbia.

SUBSIDIARY COMPANY

Computing Devices Company Limited,
London, England.

REGISTRAR AND TRANSFER AGENT

Canada Permanent Trust Company,
Toronto and Montreal.

AUDITORS

Deloitte, Plender, Haskins & Sells,
Toronto, Ontario.

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Sounder Sales and Service
683 East Hastings Street
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Area Code 604

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Telephone: 466-7461
Area Code 902

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BENDIX INTERNATIONAL OPERATIONS
605 Third Avenue
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Telephone: 973-2121
Area Code 212
Telex: 001-2237
Cable address: BENDIXINT NEW YORK

LICENSEES

NAVIGATION & CONTROL DIVISION
THE BENDIX CORPORATION
Teterboro, N.J., U.S.A.

BENDIX RADIO DIVISION,
THE BENDIX CORPORATION
Baltimore, Maryland, U.S.A.

TELDIX LUFTFAHRT-AUSRUSTUNG
G.m.b.H.
Heidelberg, WEST GERMANY

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Paris, FRANCE

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AN AFFILIATE OF THE BENDIX CORPORATION